

## MINUTES

BOARD OF TRUSTEES  
PUBLIC EMPLOYEES' RETIREMENT FUND  
143 West Market Street, Suite 500  
Indianapolis, IN 46204

June 8, 2000

### TRUSTEES PRESENT

Richard Doermer, Chair  
Nancy Turner, Vice Chair  
Teresa Ghilarducci  
Steven Miller  
Jonathan Birge

### OTHERS PRESENT

Mary Beth Braitman, Ice Miller Donadio & Ryan  
Pete Keliuotis, Wm. M. Mercer Investment Consulting  
Jeremy Getson, Wm. M. Mercer Investment Consulting  
Richard Boggs, Burnley Associates  
Steffanie Rhinesmith, Indiana Development Finance Authority  
Karen Franklin, National City Bank  
Doug Todd, McCready & Keene, Inc.  
E. William Butler, PERF Executive Director  
Mark Webb, PERF Deputy Director & General Counsel  
Diann Clift, PERF MIS Director  
Patrick Lane, PERF Executive Assistant  
William Hutchinson, PERF Division Director, Pension Administration  
Michael Quigley, PERF Pension Administration Program Director  
Jerry Bates, PERF Information Specialist  
Dave Yeater, PERF Controller  
Linda Stahl, Recording Secretary

### ITEMS MAILED TO THE BOARD PRIOR TO MEETING

- A. Agenda of June 8 & 9, 2000 Meeting
- B. Minutes:
  - ☐ April 17 & 18, 2000 Board of Trustees Meeting
  - ☐ May 10, 2000 Benefits Administration Committee Meeting
  - ☐ April 17, 2000 Investment Committee Meeting
  - ☐ May 17, 2000 Investment Committee Meeting
- C. Statements of Retired and Disabled Members – PERF, Judges, Conservation & Excise, and Police & Fire
- D. Reports Summaries, Memorandums and/or Letters Concerning:
  - ☐ PERF Reorganization
  - ☐ Quarterly Investment Compliance

- ❑ Quarterly Financial Statement
- ❑ Quarterly Statistical Statement
- ❑ Buildings Update
- ❑ New Units & Enlargements

A quorum being present, Chair Doermer called the meeting to order.

## 1. MINUTES APPROVAL

**MOTION** duly made and carried to approve the Minutes of the April 17 & 18, 2000 meeting with the following correction:

### 2. INVESTMENTS (April 18)

#### Performance Analysis Report – Paragraph 4

Looking specifically at the allocation of funds within the Consolidated Retirement Investment Fund (CRIF), total Fund assets were about \$10 ~~Million~~ **Billion** with 47.1% in large cap equity, 7.7% in small cap equity, 43.0% in fixed income and the remainder in a Reallocation Fund.

*Proposed by: Steve Miller*

*Seconded by: Jon Birge*

*Votes: 5 for, 0 against, 0 abstentions*

## 2. BOARD DISCLOSURES

Richard Doermer - Bank One Corporation and its affiliates  
(Stock ownership)

## 3. ADMINISTRATIVE

### Executive Director's Report

#### a. Reorganization

##### ➤ Resolutions

At the April 17 meeting, a Resolution was passed expressing the Board's desire to keep the compensation/benefits of the PERF staff on a parallel with what they were receiving as pure State employees. Thus, most of the reorganization efforts to date have been directed at moving PERF out of State government. The larger, more programmatic and positional changes will necessarily come after July 1.

Today, Mary Beth Braitman was present to discuss proposed general procurement, investment procurement, employment and ethics policies (copies on file). She began with the procurement policies and noted that

current Indiana State Code and Department of Administration (DOA) rules for Requests for Proposals/Broad Agency Announcements apply to the procurement process. Those include invitations to bid and requests for quotes, agency rules for less than \$25,000 purchases, BAA's for services, RFP's, and quantity purchase agreements. The proposed General Procurement Policy would replace Code requirements and the DOA process for non-investment related services. Goods and services could be purchased by RFP, special procurement, small purchases, and other methods approved by the Board of Trustees. The publication of notice requirements under the most commonly used RFP process were broadened and more specific rules were incorporated to govern contact between the respondent and any Fund representatives.

Following review and discussion,

**MOTION** duly made and carried to accept the proposed General Procurement (Operations) and Real Estate Policy. This action was incorporated in Resolution No. 00-08.

*Proposed by: Jonathan Birge*  
*Seconded by: Nancy Turner*  
*Votes: 5 for, 0 against, 0 abstentions*

Looking at the Investment Procurement Policy, Ms. Braitman noted that the proposed policy utilized an RFP process for the procurement of investment services, including investment consulting, custodian, and investment management services. Because these are such critical services, it was felt that the complete RFP process should be utilized. Under the current process PERF staff works up a BAA (RFP) which then goes to the Department of Administration. DOA then publishes and mails the RFP and all responses are mailed to them for delivery to PERF for work up. Under the newly proposed policy the process would be run entirely in-house with the Executive Director or the Executive Director's designee supervising all aspects of the process. A clause was incorporated wherein the Executive Director or the Board may take any actions deemed necessary to safeguard the assets of the Fund for a temporary period until permanent disposition of the assets could be made.

Following review and discussion,

**MOTION** duly made and carried to accept the proposed Investment Procurement Policy with the addition of the wording "The Executive Director **with the approval of the Board of Trustees**" where applicable. This action was incorporated in Resolution No. 00-08.

*Proposed by: Jonathan Birge*  
*Seconded by: Steve Miller*  
*Votes: 5 for, 0 against, 0 abstentions*

Moving on to the Employment Policy, Ms. Braitman explained that the Employment Policy replaces State Personnel Department rules. What was done with respect to Affirmative Action, Americans with Disabilities, and

harassment policies was to use statements that comply with the best practices of private sector employers. Leave policies (vacation, family, military, personal, jury duty, holidays) would adopt, without change, the State's policies with respect to each. The employee benefit plans would continue without change, consistent with the Board's directive at its previous meeting. The complaint grievance procedures set out formal procedural protections and a grievance process that is different than the State's and different than private sector --- it is somewhere in between. Probationary periods will change from 12 to 18 months, depending upon position, to a single probationary period for all employees of 6 months. Performance reviews will be completed at the end of a probationary period and annually thereafter.

Following review and discussion,

**MOTION** duly made and carried to accept the proposed Employment Policy. This action was incorporated in Resolution No. 00-08.

*Proposed by: Nancy Turner*  
*Seconded by: Teresa Ghilarducci*  
*Votes: 5 for, 0 against, 0 abstentions*

Looking finally at the Ethics Policy, Ms. Braitman explained that under Senate Bill 64 the Board had the authority to write their own ethics policy. Essentially the proposed policy is the current State policy with the exception of matters concerning gifts, honorariums and payment of expenses for travel, conventions, conferences, or similar activities. Ultimately, what was used was an approach whereby an employee would not be allowed to accept an honorarium or travel expenses for anything that could be considered part of the employee's official duties. Rather, those monies would be paid to the Fund to offset general travel expenses.

Following review and discussion,

**MOTION** duly made and carried to accept the proposed Ethics Policy with the addition of the following wording in item 9.:

Whenever a Fund employee is a participant or speaker at any event requiring travel, the organization or individual requesting participation of a Fund employee may be requested to reimburse the Fund. **If the organization or individual requesting participation reimburses other speakers/participants, they shall reimburse the Fund.**

This action was incorporated in Resolution No. 00-08.

*Proposed by: Jonathan Birge*  
*Seconded by: Nancy Turner*  
*Votes: 5 for, 0 against, 0 abstentions*

➤ Budget Plan

Effective July 1, 2000, PERF will no longer be under the budgetary process of the State of Indiana. With the understanding that the Fund will have a transition budget for the next fiscal year, some budget projections were prepared for Board discussion (copy on file) with the two big drivers being staff expansion and an increase in services by others. No separate capital budget was prepared, but as the budget continues to develop, it may be expanded to include a separate budget to evaluate the capital needs and expenses of the Fund.

Looking at the proposed budget, there were five basic components as follows:

Personal Services - Currently, the Fund has 45 full-time employees and an additional 8 temporary employees. For budgeting purposes, all 53 employees were considered full-time, permanent. Two projections were prepared, one assuming the addition of 15 staff members and the other assuming the addition of 30 staff members. A higher percentage increase was used in the "plus 15" projection due to the fact that those positions will in all likelihood be upper level management and on an average basis will involve more cost per person. A lower average per person was used in the "plus 30" because the lower compensated positions would be included.

Support Services – One of the biggest items included in support services was employee training. With some of the requirements the Fund is now obligated to meet and with the new Clarety system coming online, employee training and training facilities will be greatly needed.

Communication Services – Considerations in this component of the budget included a better and more effective outreach program, the establishment of a better publication cycle, and Call Center expansion.

Professional Services By Others - Professional services by others was broken out in two parts. One was the repeating outside services needed by the Fund (i.e., McCready & Keene, Information Services Division, Personix, investment fees). The second part would be for special, one-time expenditures (i.e., a compensation and performance management review of the Fund, a benefit delivery baseline project).

Travel & Development – Included in this budget projection was Board education/development.

With that explanation, the floor was opened for discussion. The Board recommended changes to the budget as follows:

- Proposed projections should be shown as "Actual", "Base", and "Target"

- Footnotes should be added breaking out the capital expenses under each component of the budget
- A narrative should be included explaining the benchmark for which the Fund is aiming while making it clear that those things requested are necessary to carrying out the business of the Fund

Following some further discussion,

**MOTION** duly made to accept the proposed budget as a tentative budget subject to the Executive Director presenting an expenditure experience report on an item-by-item basis at each quarterly meeting of the Board.

*Proposed by: Teresa Ghilarducci*  
*Seconded by: Steve Miller*  
*Votes: 5 for, 0 against, 0 abstentions*

### ➤ Staffing Plan

Board reviewed a proposed table of organization (TO). This table was drafted along the major functions of investments, benefits, financial controls, and operations and information technology. It was drafted as a very flexible staffing plan that could be changed according to the needs of the Fund. The new computer system (SIRIS) will have a strong affect on the financial and benefits areas, as well as on the investments area at a later date.

Included on the TO was an Internal Auditor position that would act independently on matters that should go directly to the Board of Trustees and not be filtered through the Executive Director first (ethics matters, conflicts of interest, etc.). Other proposed management positions and staffing included the following:

<u>Position</u>	<u>Staff</u>
Chief Information Officer	Controller, Investment Accounting Supervisor, Operations Accounting Supervisor
Chief Investment Officer	Compliance Officer, Director of Equity, Director of Fixed Income, Director of Trading, Director of Alternative Investments
Chief Benefits Officer	PERF Director, Other Funds Director, Program Director
Chief Operations Officer	Director of Communications, Director of Human Resources/Organizational Development, Call Center Supervisor, Information Specialists (2)

Board recommended that the table of organization as reviewed be included as part of the proposed budget package.

b. Internal Auditor

Mr. Butler apprised the Board of the status of a contract with PricewaterhouseCoopers (PwC) for internal audit functions. Discussions were undertaken with the firm on the notion that they are big enough and well equipped to do an internal audit project. However, a problem arose in executing a contract when PwC requested some indemnifications and protections with which PERF staff felt uncomfortable. Following further discussions with the head of the PwC Indianapolis office, it would now appear that the problem can be resolved in a manner acceptable to both parties. Minus resolution, PERF staff will begin looking at other large regional firms.

c. House Enrolled Act 1283

Mary Beth Braitman reported that this new piece of state legislation permits active members of PERF and TRF to make up to 10% additional voluntary contributions to their annuity savings accounts effective July 1, 2000. These contributions will be post-tax. As such, they will remain taxable income to the employee. However, a Private Letter Ruling request is being filed with the Internal Revenue Service seeking a "pre-taxed" status on these contributions. If approved, those individuals who are looking to maximize their retirement savings would be greatly benefited.

Buildings Update

a. 125 West Market Street

This property is totally vacant due to the departure of the Data Processing Oversight Commission. No efforts will be taken to lease the space until such time as PERF space requirements can be determined due to the addition of staff.

b. 143 West Market Street

Some sizeable expenses were incurred during the month of February due, in part, to expenditures for elevator up-keep and lock-off security, construction material removal and other miscellaneous building maintenance expenses. Additionally, an insurance payment of \$5,342 (budgeted for another month) fell due as did a utilities payment of \$10,327 which represented two months. At quarter's end, the property was back on budget.

c. SIRIS Update

Diann Clift reported that the master work plan for the SIRIS project was broken down into three stages --- membership, benefits, and financials.

- Stage 1, Memberships - This portion of the plan is about 70% complete and was initially scheduled for rollout in September 2000. However, staff felt it was necessary to insure statutory compliance. Therefore, a team composed of PERF, TRF, and Ice Miller representatives looked at the Stage 1 design and determined that there were, in fact, some things that needed improvement. Therefore, a new rollout date has been established for January 2001.
- Stage 2, Benefits – This stage is about 15% complete and was begun with a review of the manner in which work is currently completed. Stage 2 will also undergo a statutory compliance review and is due to be rolled out during the first part of June 2001.
- Stage 3, Financials - Stage 3 will be implemented upon the rollout of Stage 2. It will utilize PeopleSoft software, and CBSI will be the implementation vendor.

Part of the SIRIS project is to get data ready for movement from the old computer system to the new system. A lot of cleanup has been done since last fall, but there is still an issue with missing data and reconciliation of service credit. Therefore, staff has met with a vendor who specializes in “scrubbing” data in an effort to determine how these issues can be rectified. Backfile conversion to create images of all historical documents is currently in the approval process. This project will take approximately 9 months to complete. To date, there is a project net savings of \$733,000 due primarily to reduced hardware costs.

#### 4. LEGAL

##### McCray Memorial Hospital

Updating the Board, Mark Webb noted that McCray Memorial Hospital was acquired by Parkview Health Care Systems on or about May 1, 2000. As of January 1, 2000, all McCray employees were terminated, immediately rehired by Parkview, and then leased back to McCray for that five month period. Thus, McCray ceased to accrue any additional PERF liability as of December 31, 1999. Per the Board’s previous directive, PERF asked its actuary to recalculate McCray’s liability based upon a 1% contribution rate. That amount was determined to be approximately \$439,000, down considerably from the original \$1.9 Million figure. To date, McCray has shown no willingness to pay any token amount of the liability. Therefore, PERF staff is preparing an affidavit for assessment to the Auditor’s Office for money that would otherwise be payable to McCray.

##### Carmel Clay Community Schools

Discussions have been undertaken with Carmel Clay representatives since the last meeting of the Board. It was Carmel Clay’s desire to amend their PERF Resolution to remove various classes of employees from PERF coverage based on the amount of hours they worked and the dates they were hired. They were told that statute does not make such a provision. To do so would unfairly deny their employees the benefits PERF provides for those covered positions. PERF staff is currently negotiating back and forth with Carmel Clay for resolution of this matter.



### Wells Community Hospital

Wells Community Hospital is being acquired by Quorum Healthcare, a nationally positioned health care operation. In compliance with statute, PERF has been provided with the necessary Resolutions. Additionally, PERF's actuary has confirmed that Wells is current in their contributions and their account is adequately funded to pay for any future liabilities.

Following discussion,

**MOTION** duly made and carried to accept the Wells Community Hospital Resolution to Withdraw, subject to PERF staff resolving the appropriate date of withdrawal.

*Proposed by: Jon Birge*  
*Seconded by: Nancy Turner*  
*Votes: 5 for, 0 against, 0 abstentions*

### Terre Haute Water Utilities

Terre Haute privatized their sewer and water utilities (6-8 employees) some time ago, and the previous Administration neglected to inform PERF. The new Administration discovered the error and are now requesting that the Board ratify that previous action. The City of Terre Haute continues to be an employer as far as the large bulk of their employees is concerned and will assume any actuarial liability for this action.

Following discussion,

**MOTION** duly made and carried to approve withdrawal of the Terre Haute Water Utilities from PERF coverage.

*Proposed by: Jon Birge*  
*Seconded by: Nancy Turner*  
*Votes: 5 for, 0 against, 0 abstentions*

### Social Security Limitations

Congress recently enacted a change to the Social Security formula and benefits that takes away the earnings limit for people who are between the ages of 65 and 69. The Indiana statute that governs PERF benefits was tied to that formula so that benefits were suspended if an individual earned more than the Social Security limited amount. The recent change was retroactive to January 1, 2000. Discussions have been undertaken with PERF and TRF to try to determine how to implement coordination of the new federal law with the Indiana structure. Those matters should be resolved in the next few months. This matter will also be presented to the Pension Management Oversight Commission in an effort to make State policymakers aware of the change and to seek their desire with respect to Indiana statute change.

### New/Pending Litigation

A class action lawsuit was brought against the Board over the benefit formula calculation in the Excise Police & Conservation Enforcement Officers' Plan. Trial Court ruled that PERF was wrong, and a Stay of Entry was requested to allow for immediate appeal. If the Court of Appeals rules that the Trial Court was correct, the case will go to the Supreme Court. If the ruling is in PERF's favor, it would then be up to the Excise Police class to take it to the Supreme Court.

As an informational matter only, Mark Webb noted that the Fund had received an Order to Appear in Marion County to show cause why they should not have to pay a refund claim twice. The facts are that an individual applied for a refund. However, as part of a divorce settlement, the Trial Judges' divorce decree ordered payment of the entire annuity savings account to the wife. When brought to their attention, PERF explained that they cannot apply case law statutes in matters of the Fund. PERF recommended that the member change his address to the Court and the check would be mailed there payable to the member who could then endorse the check and receive payment as decreed. The member did, in fact, provide PERF with a change of address to reflect the Clerk of the Court. However, when that form was processed by PERF, the member's permanent home address was inadvertently changed instead of the mailing address for the refund. The net result was that the refund went to the member who cashed the check and ran. The Attorney General's Office has requested a continuance in the matter, and it was granted.

## 5. BENEFITS

### Benefit Administration Committee Report

Nancy Turner reported that the Committee met on May 10. Topics of discussion included the following:

- a. Employer Contribution Rates – The smoothing resolution passed by the Board in December, 1999 will be updated to include language spelling out that an employer who joins PERF or expands their coverage will have their contribution rate frozen for two years.
- b. Policy Statement – The drafting of a statement of benefits and administration policies/procedures has been placed on hold due to the Board strategic planning initiative. The reference materials gathered for drafting a policy will be folded into the broader picture of the Board's initiative.
- c. Police & Fire Line of Duty Death Benefits – PERF has encountered a number of cases where a police officer or fireman died while at work but not necessarily performing in the line of duty. From a legal perspective, the authority to make a final determination in such cases is delegated to the Board of Trustees. The majority of line of duty death issues are black or white, but there are some cases with gray areas. Recommendation was made that assistance be sought in the matter of line of duty deaths. The procedure to be used would be as follows:

- PERF staff would present line of duty benefit claims to the 1977 Police Officers' & Firefighters' Advisory Committee for review and recommendation.
  - The Advisory Committee would review the matter and conduct further investigation if necessary. Their recommendation would then be issued to the Benefits Administration Committee.
  - The Benefits Administration Committee would review the Advisory Committee recommendation and consult further with them if necessary.
  - The Benefits Administration Committee would present the case and its recommendation to the Board of Trustees for final determination.
- d. Pension Relief – Committee recommended that the matter of possible statute change be referred to the Pension Management Oversight Commission as concerns distribution of Pension Relief funds. Historically, PERF has been hard pressed to make distribution of those funds in a timely manner due to the fact that some units are very inattentive to providing the information necessary to do the calculations, and no distribution can be made to any unit until all have reported.

New Units & Enlargements:

**MOTION** duly made and carried to accept the following new units and enlargements:

New Units

1706	- Town of Greensfork
1707	- Town of Milton
1708	- Town of Mount Summit
1709	- Town of St. Leon
1710	- Ohio Township, Warrick County
1711	- Culver-Union Township Public Library
1712	- Town of LaPaz
1713	- Michigan Township
1714	- Pendleton Community Library

Enlargements

0455	- City of Fort Wayne
0481	- Noblesville Southeastern Public Library
0498	- Morrison-Reeves Library
0538	- Howard County
0636	- LaPorte Community School Corporation
0761	- South Newton School Corporation
0797	- Northwestern School Corporation
0888	- City of Nappanee
0916	- Madison Consolidated Schools
0927	- Western School Corporation
0959	- City of Rochester
1091	- South Madison Community School Corporation
1097	- MSD of Pike Township
1107-001	- Adams Co. Solid Waste Management District

1155	- City of Berne
1215	- Town of Plainfield
1217	- Carmel Clay Public Library
1280	- Carroll Consolidated Schools
1302	- Covered Bridge Special Education District
1341	- Town of Cicero
1372	- Wayne Township, Marion County
1436	- Town of Paoli
1438	- Middlebury Community Library
1440	- Indianapolis Public Transportation Corporation
1460	- Bell Memorial Public Library
1465	- Warren Township, Marion County
1479	- Town of Milan
1482	- Town of Sellersburg
1501	- Whitewater Valley Community Library District
1532	- Connersville Utilities
1534	- Town of Hamilton
1565	- Town of Rossville
1566	- Town of Westport
1577	- Brook-Iroquois Township Public Library
1666	- Middle Township Trustee

*Proposed by:* Teresa Ghilarducci  
*Seconded by:* Nancy Turner  
*Votes:* 5 for, 0 against, 0 abstentions

Having previously adopted resolutions to continue participation as employers in PERF on and after July 1, 2000, the date both PERF and TRF become bodies corporate and politic;

**MOTION** duly made and carried to accept the Public Employees' Retirement Fund's and the Teachers' Retirement Fund's resolutions to continue participation as employers in PERF.

*Proposed by:* Steve Miller  
*Seconded by:* Jon Birge  
*Votes:* 5 for, 0 against, 0 abstentions

## 6. ACTUARIAL

### Valuation Reports

Doug Todd reviewed with the Board valuation reports for the Excise Police & Conservation Enforcement Officers' Retirement Plan, Prosecuting Attorneys' Retirement Fund, Legislators' Defined Benefit Plan, Judges' Retirement System, and Police & Fire Fund (copies on file).

Looking specifically at the Prosecuting Attorneys' Retirement Fund, Mr. Todd noted that the employer contributions required to offset the net pension obligation have risen steadily over the years 1996-1998. However, the actual employer contributions have not. Dave Yeater injected that those contributions are funded by

allocations from the General Assembly. For the first six years of the Fund's existence, the General Assembly determined the amount to be allocated as employer contributions. Over the last two budget cycles, they were given funding schedules for the Fund, and they allocated more monies. However, they did not augment those first six years of contributions. Following some further discussion, the Board requested that PERF staff bring this matter to the attention of the pertinent parties, noting that the plan is not being funded as it should be.

Following discussion of all plans,

**MOTION** duly made and carried to accept the valuation reports as presented.

*Proposed by: Steve Miller*  
*Seconded by: Teresa Ghilarducci*  
*Votes: 5 for, 0 against, 0 abstentions*

### Pension Relief Calculation

Mr. Todd noted Pension Relief distributions have not been calculated due to the fact that some cities and towns have yet to provide PERF with the information necessary to make those calculations. Therefore,

**MOTION** duly made and carried to authorize PERF staff to finish the necessary Pension Relief computations and to make distributions as appropriate.

*Proposed by: Teresa Ghilarducci*  
*Seconded by: Nancy Turner*  
*Votes: 5 for, 0 against, 0 abstentions*

### Smoothing Rules

Mr. Todd noted that it had been past practice to guarantee an employer contribution rate established by the actuary for a period of two years for units joining PERF or enlarging their coverage effective January 1, and for a period of 1-1/2 years for units joining PERF or enlarging their coverage effective July 1. It was his recommendation that Resolution No. 99-07, acted upon by the Board in a previous meeting, be amended to include those guarantees.

**MOTION** duly made and carried to adopt Resolution No. 00-07 guaranteeing an actuarially-established employer contribution rate as noted above. Adoption of this Resolution amends Resolution No. 99-07 enacted by the Board of Trustees in December 1999.

*Proposed by: Teresa Ghilarducci*  
*Seconded by: Jon Birge*  
*Votes: 5 for, 0 against, 0 abstentions*

## Employer Contribution Rates

A list of projected employer contribution rates (copy on file) was distributed for Board review and approval. Mr. Todd noted that some of the rates would change in accordance with the amended smoothing resolution just acted upon by the Board.

Following discussion,

**MOTION** duly made and carried to adopt Resolution No. 00-06 approving the July 1, 2000 through June 30, 2001 employer contribution rates as recommended by the actuary with recalculation of those rates affected by passage of the amended smoothing resolution.

*Proposed by: Teresa Ghilarducci*

*Seconded by: Jon Birge*

*Votes: 5 for, 0 against, 0 abstentions*

## 7. FINANCIAL

Copies of a quarterly financial statement and quarterly statistical report were distributed for Board review (copies on file). No discussion was undertaken on the matters.

## 8. RECESS

There being no further business, the meeting was recessed to reconvene on June 9 at 9:00 a.m.

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June 9, 2000

TRUSTEES PRESENT

Richard Doermer, Chair  
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Steven Miller  
Jonathan Birge

OTHERS PRESENT

Mike Heale, Cost Effectiveness Measurement  
Mary Beth Braitman, Ice Miller Donadio & Ryan  
Pete Keliuotis, Wm. M. Mercer Investment Consulting  
Jeremy Getson, Wm. M. Mercer Investment Consulting  
Richard Boggs, Burnley Associates  
Steffanie Rhinesmith, Indiana Development Finance Authority  
Karen Franklin, National City Bank  
Matt Brase, Indiana Association of Cities & Towns  
E. William Butler, PERF Executive Director  
Mark Webb, PERF Deputy Director & General Counsel  
Patrick Lane, PERF Executive Assistant  
William Hutchinson, PERF Division Director, Pension Administration  
Linda Stahl, Recording Secretary

1. BOARD RECOGNITION

The Board recognized Lee Tanner who has served PERF for a number of years. Mr. Tanner began his banking career with the old American Fletcher National Bank. He traveled the State on behalf of AFNB and later Indiana National Bank. PERF was among his primary clients during that period. Later Mr. Tanner formed his own investment firm, Prime Capital Management, and was awarded an investment manager contract for a portion of the PERF assets. In 1975, when Mr. Tanner first began working with PERF, the Fund's portfolio totaled \$375 Million. Today that portfolio totals almost \$11 Billion. A great bulk of that growth was enjoyed during periods of Mr. Tanner's service to the Fund.

Therefore, on behalf of the Board of Trustees, Chairman Doermer presented Mr. Tanner with a plaque denoting their appreciation for his years of service to PERF. Additionally, on behalf of Governor Frank O'Bannon, Mr. Tanner was

also awarded a Sagamore of the Wabash, recognizing his significant and important contributions to the welfare of the State.

## 2. COST EFFECTIVENESS MEASUREMENT, INC.

Mike Heale with Cost Effectiveness Measurement (CEM) was present to discuss the services CEM offers in the area of benefit administration benchmarking. CEM is a small partnership of eight people located in Toronto, Canada. The firm has been in business for ten years. The origin of their business was benchmarking investment operations of defined benefit pension plans. Approximately two years ago they began benchmarking the benefit administration side. Currently, CEM has a core group of 25 firms who participate in their benefits administration benchmarking analysis service.

CEM's benchmarking analysis explains how seven factors determine a plan's costs --- services provided (activities), plan complexity, volumes (economies of scale), service levels, cost environment, systems, and quality. The heart of the analysis compares a plan's costs, volumes, complexity, and service levels to that of their peers for 14 core administration activities as follows:

- Paying pensions
- Collection of contributions and maintenance of service credit data
- Refunds and other terminating payments
- Pension estimates
- Pension inceptions
- Disability pensions
- Service credit purchases
- Member counseling
- Call center/member telephone calls
- Communication to members
- Governance and financial control
- Plan policy, design and development
- Supplemental benefit programs
- Major projects and non-recurring items

CEM provides hands-on assistance with collection of the data necessary to prepare a report. Once completed, the report is presented in a personal on-site presentation by CEM.

Following Mr. Heale's report, the floor was opened for discussion following which,

**MOTION** duly made and carried to engage Cost Effectiveness Measurement for the purpose of conducting a benefit administration benchmarking report on the PERF fund.

*Proposed by: Jonathan Birge*  
*Seconded by: Nancy Turner*  
*Votes: 5 for, 0 against, 0 abstentions*



### 3. INVESTMENTS

#### Investment Committee Report

Steve Miller reported that the Investment Committee met telephonically on May 17. Topics of discussion included the following:

- a. Securities Lending – Committee moved to give Chase all the equity securities to lend plus what is essentially the opportunistic fixed income managers (BlackRock, Conseco and Western). All the fixed income would be loaned by Bank One.

Additionally, Committee looked at a draft of collateral investment guidelines for securities lenders. These guidelines were set up to look very much like money market fund investment guidelines with very high quality, very short duration, and very low risk. It was the recommendation of the Investment Committee that the draft guidelines be accepted for inclusion as an Addendum to the Board's Restatement of Investment Policy.

**MOTION** duly made and carried to adopt the proposed securities lending collateral guidelines as an Addendum to the Board's Restatement of Investment Policy.

*Proposed by:* Steve Miller  
*Seconded by:* Teresa Ghilarducci  
*Votes:* 5 for, 0 against, 0 abstentions

- b. Brinson Portfolio Restructuring – To date, Brinson has converted approximately half of the PERF portfolio to their new strategy, a strategy which hopefully will not completely exclude some of what they consider the overvalued stocks but will allow a little bit more risk profile. They expect to convert the remainder of the portfolio by mid-August.
- c. Conseco Capital Management – Concern was raised regarding the fact that Utendahl Capital Management is currently holding approximately \$1 Million worth of Conseco bonds that were downgraded to "BB". Utendahl was instructed to hold the bonds and inform PERF if there is a further downgrade. At that point a decision can be made as to their sale.

Discussion was also undertaken concerning the possibility that some of the Conseco money management talent might leave with all the problems of the parent company. The fear was that if these individuals' compensation includes a big element of Conseco stock, they might go somewhere where they would be better compensated. Following discussions with the firm, it was determined that their compensation is tied primarily to the performance of Conseco Capital and not the parent company of Conseco. There is some talk of spinning off Conseco Capital from the parent company. Currently, there seemed no cause for alarm as far as Conseco Capital is concerned.

- d. Asset Allocation – Pete Keliuotis noted that he had contacted Northern Trust concerning the cost to “carve out” the inflation indexed bond portfolio. Those fees would range from 5 basis points down to 2. Committee recommended that no monies be moved until such time as contracts are in place.

#### Performance Analysis Report

Pete Keliuotis summarized first quarter market performance (performance report on file) as rotating between “new economy” and “old economy” stocks as inflation fears heightened among stronger than expected GDP and rising employment costs. By the end of the quarter, the strong gains enjoyed by the new economy stocks in February were sufficient to drive their outperformance relative to value-oriented stocks beginning on March 10. As a result, within the S&P 500, the technology sector produced the highest first quarter performance. Near the end of the quarter, the announcement of the failed Microsoft antitrust settlement proceedings contributed to the decline not only of Microsoft’s stock price, but also the technology sector as a whole.

Similar to large cap, the small cap growth stocks produced large gains in February, driven largely by telecommunications and biotechnology firms. However, concern regarding patent rights and stock valuations negatively affected this area of the market.

Looking specifically at the Consolidated Retirement Investment Fund (CRIF), total assets increased \$298 Million during the quarter to \$10,010 Million. At quarter end, fixed income allocation was in line with its target, large cap equity was over target, and small cap equity was under target. Exposure to both equity classes increased during the period, while fixed income decreased.

The total Fund gained 3.0% during the first quarter, trailing the Mercer Target and Actual Composite Universe medians and the Target Reference Index. The Fund’s equity managers detracted from results during the period, as all ranked below the medians of their respective peer groups. On the fixed income side, the Northern Trust aggregate, Reams, BlackRock, Consecro, and Western portfolios turned in above median results and outperformed the LB Aggregate Index.

#### Investment Compliance Report

Dick Boggs presented an investment compliance report (report on file). Mr. Boggs noted that steady progress continues to be made to achieve the long-term asset allocation goals of the Fund. With monies being shifted from bonds to stocks at the rate of \$120 Million per month, the allocations on March 31 were Large Cap Domestic Equities 50%, Small Cap Domestic Equities 8%, and Domestic Bonds 42%.

Securities lending efficiency and income generation continued strong, aided significantly by equity lending which was begun late last year. Lending revenues offset 38% of fees during the first quarter. Bank One loaned more than their 40% limit during the first quarter. They attribute that to miscommunication within their operation, and it has since been corrected. No other violations were detected.

Looking at the investment managers, all appeared to be following the investment styles for which they were hired. There were no violations of Guidelines detected.

3. NEXT MEETING

The next meeting of the Board was previously scheduled for August 30 and 31, 2000.

4. ADJOURNMENT

There being no further business the meeting was adjourned.